

**PROSPECTUSES  
MADE CLEAR**

\$  
%\$  
327813567  
154 600934568912\$



## Table of Contents

<b>1</b>	<b>What is an issuer?</b>	4	<b>7</b>	<b>What is the procedure for filing a prospectus?</b>	11
<b>2</b>	<b>What is a prospectus?</b>	5	<b>8</b>	<b>Besides filing a prospectus, what do issuers have to do?</b>	12
<b>3</b>	<b>Why do issuers have to file a prospectus?</b>	5	<b>9</b>	<b>Where can you obtain a prospectus?</b>	13
<b>4</b>	<b>When will you receive a prospectus?</b>	6	<b>10</b>	<b>Why should you read a prospectus?</b>	13
	Equity or debt securities	6			
	Mutual fund units	7			
<b>5</b>	<b>What information is contained in a prospectus?</b>	7			
<b>6</b>	<b>Presentation of a prospectus</b>	8			
	Cover page	8			
	Table of Contents and Prospectus Summary	8			
	Information relating to the issuer	8			
	Information relating to the security	9			
	Information relating to officers and shareholders	10			
	Information relating to the parties	10			

Note: In this brochure, the masculine form may refer to both women and men.

## Autorité des marchés financiers

The *Autorité des marchés financiers* (AMF) is the body mandated by the government of Québec to regulate Québec's financial sector and to offer assistance to consumers of financial products and services.

Its mission is to protect the public by applying the laws and regulations governing the following areas of activity: insurance, securities, deposit institutions (other than banks) and distribution of financial products and services.

## Purpose of the brochure

The purpose of this brochure is to help you become more familiar with prospectuses, which are important sources of information for making sound investment decisions.

This AMF brochure is provided for your information. It does not offer any advice on the purchase or use of specific financial products and services.

## CONTEXT

**George**  
*likes to get the facts...*

George is a veterinarian. Although his professional activities leave him with little free time, he always tries to find out as much as he can before investing. This is what he did when he bought a building where his clinic and rental units are now located. He took the time to analyze business volume for his clinic and the rental potential. He made the right decision. He has built a large clientele among the many pet owners in the area and has never had trouble finding tenants for his units. Similarly, he believes it is advisable to take the time to find out all he can about his investments in securities.

His investment dealer representative suggested some newly issued securities and mutual fund units. To determine whether the proposed investments are suitable, George decided to read prospectuses.

One of the best ways of protecting investors who would like to invest in a business corporation or mutual fund<sup>1</sup> is to ensure that they have access to accurate and up-to-date information.

Reading the prospectus is an important step for an informed investor. It gives essential information about an issuer, including information on its products, management team, strategic and financial planning and risk exposure.

## 1

### WHAT IS AN ISSUER?

The person who plans to issue stock (a security) or is doing so in consideration of capital solicited from the public is called an “issuer”. That person is normally a legal person, such as a company or mutual fund.

An issuer solicits funds from investors to improve its financial condition, carry out projects or develop new markets. In exchange for the money invested, the investor receives securities that may be, among other things, a share traded on a stock exchange, a bond or mutual fund units.

1. When mutual funds are set up as a trust (the most common form), they issue units; when they are set up as a company, they issue shares. For the sake of convenience, only the term “units” will be used in this brochure.

When an issuer makes a public offering, it must comply with the continuous disclosure requirements prescribed by law. It becomes a “reporting issuer”. It must file prospectuses, financial statements and other public disclosure documents. Unless indicated otherwise, this is the type of issuer we are referring to in this brochure.

2

## WHAT IS A PROSPECTUS?

A prospectus is a detailed information document that normally must be prepared whenever an issuer plans to sell securities to the public.<sup>2</sup>

The purpose of a prospectus is to inform investors and their representatives to help them make sound investment decisions. Under the *Securities Act*, a prospectus must provide full, true and plain disclosure of all material facts relating to the securities being issued. It must disclose all material facts likely to affect the value or the market price of the securities to be distributed.

- ▶ A PROSPECTUS IS A GOOD STARTING POINT IN YOUR SEARCH FOR INFORMATION. IT CONTAINS A GREAT DEAL OF INFORMATION THAT YOU CAN ANALYZE.

3

## WHY DO ISSUERS HAVE TO FILE A PROSPECTUS?

A prospectus is a legal document that must be prepared and filed as prescribed by the *Securities Act*. The regulatory authorities require a prospectus to ensure that investors have access to complete information on the securities to be issued. The purpose is to standardize the information available to investors and facilitate analysis of and comparisons between various investments. This way, investors may do a thorough and careful analysis before investing in a security.

An issuer who wishes to offer securities to the public must file a prospectus. In Québec, issuers are required to file a prospectus with the *Autorité des marchés financiers* (AMF) for review. The AMF checks the information provided. If the review confirms that the factual information qualifies as full, true and plain disclosure, the

---

2. Some issuers may be exempted from the prospectus requirements to sell securities, but only under certain conditions. For further details, please read our brochure entitled “Prospectus Exemptions”.

AMF may issue a “receipt” that becomes the acknowledgement that the prospectus was filed in the proper form. The AMF receipt certifies that the information presented in the prospectus complies with the law, but does not constitute a guarantee in respect of the quality of the issuer or the security under consideration.

Most prospectuses contain the following warning on the cover:

**“No securities authority has expressed an opinion about the quality of the securities offered in this prospectus and it is an offence to claim otherwise.”**

▶ THE RECEIPT IS NOT CONFIRMATION THAT THE SECURITIES ARE A SAFE INVESTMENT OR ARE SUITABLE FOR ALL INVESTORS. YOU AND YOUR REPRESENTATIVE SHOULD DETERMINE WHETHER THE SECURITY IS THE RIGHT INVESTMENT FOR YOU. IF YOU INVEST WITHOUT THE HELP OF A REPRESENTATIVE, BE SURE THAT YOU UNDERSTAND THE INFORMATION CONTAINED INSIDE THE PROSPECTUS.

## 4

### WHEN WILL YOU RECEIVE A PROSPECTUS?

There are rules about when an investor must receive a prospectus.

There are two similar approaches: the delivery of a prospectus for equity or debt securities, and the delivery of a prospectus for mutual fund units.

#### Equity or debt securities

“Equity securities” are common or preferred shares that represent a share in the ownership of a company. A “debt security” refers to bonds and debentures that represent funds borrowed by the company from investors.

For these securities, a prospectus is filed with the regulatory authorities when the security is issued for the first time, i.e. when it is issued on the primary market. If a company is conducting an IPO (initial public offering), it must hold a prospectus. The prospectus must be available free of charge to anyone who requests it without any other form of commitment. The procedure is explained in greater detail further on in this brochure.

Once the securities are issued on the primary market, they may then be traded on the secondary market (marketplaces such as stock exchanges and over-the-counter markets). When securities are traded on the secondary market, the issuer or dealer is no longer required to provide the investor with a prospectus. It is still required to deliver the prospectus upon request.

## Mutual fund units

A mutual fund is made up of money pooled by investors and managed on their behalf by a manager.

When an investor purchases mutual fund units for the first time, the issuer (the mutual fund) must give him a prospectus. However, if the investor reinvests in the same mutual fund, there is no further requirement to give him a prospectus because it was already provided with the first investment. Mutual fund prospectuses often combine information on several mutual funds from the same “family”, i.e. from the same management company.

A mutual fund prospectus is normally shorter and simpler than a prospectus for an equity or debt security.

Like equity and debt securities, mutual funds normally have to furnish a prospectus to any member of the public who requests it.

- ▶ IF YOU ARE ASKED TO TAKE PART IN AN INVESTMENT BUT YOU ARE UNABLE TO OBTAIN A PROSPECTUS, BE CAREFUL.

## 5

### WHAT INFORMATION IS CONTAINED IN A PROSPECTUS?

All prospectuses follow a predefined framework for presenting information.

The prospectus of a company that issues equity or debt securities contains the following information in particular:

- the history of the issuer and a description of its operations;
- audited financial statements for the previous three fiscal years;
- the issuer’s plans, such as its growth strategy;
- a description of the intended use of the funds raised from selling the securities;
- a summary of the major risk factors affecting the issuer;
- information about the issuer’s management and its principal shareholders (those who own more than 10%).

The prospectus also contains a description of the rights granted to investors under the *Securities Act*. For example, the Act provides that a person who purchases securities may have the subscription cancelled. All he has to do is send his dealer a notice of rescission within two business days of receipt of the prospectus (rescission right). An investor may also apply for a contract rescission or reimbursement if the prospectus contains false or misleading information that could affect the value of the security, and may do so within 180 days of the date of the transaction.

There could be differences between prospectuses depending on the security issued and the nature of the company. For example, a company operating in the bio-pharmaceutical industry may be required to disclose different information from that of a manufacturer.

In the following pages we will examine the various sections of a prospectus.

## 6

# PRESENTATION OF A PROSPECTUS

## Cover page

The cover page of a prospectus discloses a great deal of relevant information for an investor.

It contains information about the value (offering price, cut-off times), the stakeholders (the name of the issuer, the underwriters<sup>3</sup> and how they will be paid, the lenders, etc.), and the nature of the prospectus (preliminary, final). The cover page for a fund or family of funds is less detailed, but lists the funds covered by the prospectus.

## Table of Contents and Prospectus Summary

On the second page, the table of contents generally shows the various sections of the prospectus.

Some prospectuses provide a summary to make it easier to read the various points.

## Information relating to the issuer

The prospectus includes information relating to the issuer under sections with headings such as:

- The company or, in the case of a mutual fund, details about the fund;***
- Selected financial information and management's discussion and analysis;***
- Recent facts;***
- Share capital structure.***

The information may also include the history of the issuer, its products or services, and the industry in which it operates.

---

3. When one or more dealers act as "underwriters", they purchase the security issuance for the purpose of reselling it.



## Information relating to the security

The prospectus is the cornerstone for the issuance of a security. It provides investors with information relating to the security.

Generally, most information related to the security is provided in sections with headings such as:

- Type of product;**
- Use of proceeds;**
- Risk factors;**
- Method of distribution;**
- Investment eligibility;**
- Description of securities distributed or Description of units.**

A mutual fund prospectus will outline the investment policies.

### CONTEXT

**George**  
reads some  
prospectuses...

In looking over a few prospectuses, George reads the following extracts:

*“The company carries on business in a very competitive environment and some of its competitors have greater financial resources.”*

*“The company is involved in certain significant lawsuits, the outcome of which is uncertain; these lawsuits could entail considerable costs.”*

*“The goal of the fund is to increase the long-term value of your investment by investing in shares of well-established U.S. companies.”*

### CONTEXT

**George**  
wants to know...

Before investing in a company, George wants to know how the proceeds will be used. Here is what he read in one prospectus:

*“Approximately \$28 million of the net proceeds will be allocated to the repayment of almost all the long-term debt of the Company and the balance will be paid into a working capital fund to enable the Company to continue its expansion through internal growth and strategic acquisitions.”*

## Information relating to officers and shareholders

This section contains information about the officers and principal shareholders of the issuer, for example, those who hold 10% or more of the securities.

You will find information about these persons in the sections entitled:

***Selling shareholders;***  
***Stock options;***  
***Principal shareholders;***  
***Directors and officers;***  
***Compensation of officers.***

Some prospectuses include short biographies of the officers, giving their occupations over the past few years.

## Information relating to the parties

The process of issuing a security is lengthy and costly. Numerous people contribute their expertise or financial resources to the endeavour. Sections under the following headings give this information:

***Certificate of the underwriters***  
***Auditors, transfer agents;***  
***Certificate of the promoter;***  
***Experts;***  
***Relationship between company and underwriter.***

Several experts may be used. They include:

- dealers who will act as an intermediary between investors and the issuer, and who help prepare the prospectus;
- accountants to check and confirm the financial information appearing in the prospectus;
- lawyers to ensure that the prospectus meets the legal requirements;
- other experts depending on the nature of the operations (for example, geologists in the case of mining companies).

## 7

## WHAT IS THE PROCEDURE FOR FILING A PROSPECTUS?

When an issuer decides to sell its securities to the public, it first prepares a *preliminary prospectus*.

The preliminary prospectus precedes the final prospectus when securities are newly issued. The issuer generally files the preliminary prospectus with the securities regulator of the province or territory where its head office is located for review. In Québec, the AMF assumes this role. If it does not submit a preliminary prospectus, the issuer must submit a draft prospectus. A paragraph printed in red on the cover page states that the document is a preliminary prospectus.

- ▶ AT THE STAGE OF THE PRELIMINARY PROSPECTUS, AN ISSUER MAY **NOT** COLLECT FUNDS OR SECURE COMMITMENTS FROM POTENTIAL INVESTORS.

This prospectus contains a large amount of preliminary and partial information that will appear in the final prospectus. However, some information could be amended or completed later.

If the conditions are met, the AMF grants a receipt. When an issuer obtains a receipt for a preliminary prospectus, it may:

- publish a promotional document;
- solicit potential subscribers or purchasers. However, at this stage of the process, the issuer may not accept financial commitments from potential purchasers.

A dealer who solicits potential subscribers or purchasers must furnish them with a copy of the preliminary prospectus upon request.

Once the AMF has completed its review of the preliminary prospectus and issued comments on it, the issuer prepares and files a *final prospectus*. When the term “prospectus” is used without a qualifier, it normally refers to the final prospectus. The final prospectus is the official and final prospectus for the issuance of a security.

The AMF grants a receipt if the prospectus contains the necessary information and if the issuer and its officers meet the conditions prescribed by law. For example, the issuer must have sufficient financial resources to ensure the company is viable, and its officers must have the integrity needed to safeguard the interests of investors. The issuer can then begin to distribute its securities.

In the case of a company, the securities distributed under a prospectus may freely be traded among investors.<sup>4</sup> However, you should be careful. Just because a company files a prospectus does not necessarily mean that its securities will be listed on a stock exchange or easily traded. The prospectus will say whether the securities are to be listed on an exchange.

4. In the case of a mutual fund, the units are normally redeemable by the issuer.

#### CONTEXT

George  
does further research...

In browsing through a prospectus, George reads the following:

*There is no market for trading these common shares and purchasers may not be able to resell the shares purchased under this prospectus.*

When an issuer already has continuous disclosure requirements, a security may be distributed through a *simplified (or short form) prospectus*. Much information is already available and has been filed with the authorities.

A simplified prospectus combines all the legal requirements as well as the information to which an investor is entitled, but in a simplified form.

The simplified prospectus of a mutual fund (or of a group of mutual funds of the same family) includes the following information in particular:

- the investment objectives and strategies of the mutual fund;
- the risks associated with the mutual fund;
- the investors for whom the mutual fund is intended;
- the policies respecting the distribution of income and capital gains;
- eligibility for registered plans;
- the main securities in the portfolio;
- the mutual fund's performance over the past few years;
- information on purchases, switches and redemptions of units;
- summary of fees and expenses;
- calculation of net asset value.

## 8

### BESIDES FILING A PROSPECTUS, WHAT DO ISSUERS HAVE TO DO?

Once an issuer obtains a receipt for its prospectus in any province or territory, it becomes a reporting issuer. As such it must publish periodic financial statements and inform the public of any material change in its affairs on a timely basis. A copy of an issuer's financial statements and material change reports is available from the issuer and on the SEDAR website.

- ▶ THE PURPOSE OF A PROSPECTUS IS TO GIVE THE INFORMATION YOU NEED TO MAKE SOUND INVESTMENT DECISIONS.

## 9

**WHERE CAN YOU OBTAIN A PROSPECTUS?**

An issuer is required to furnish you with a copy of the prospectus if you request one, whether or not you intend to invest.

There are also other ways to obtain a prospectus:

- You can ask your representative or dealer or the firm that employs him for a copy of the prospectus before purchasing the security.
- Many reporting issuers post their prospectus on their website. You will generally find access to the prospectus in the “Investor Relations” section.
- It is also possible to visit the SEDAR website, which is a database containing, among other things, statutory documents related to a large number of companies and mutual funds, including prospectuses.

► IF YOU ARE GIVEN A PROSPECTUS OF AN ISSUER WITH WHICH YOU ARE NOT FAMILIAR AT A CONFERENCE, IT WOULD BE ADVISABLE TO CHECK ITS AUTHENTICITY. YOU CAN ASK YOUR REPRESENTATIVE FOR HELP OR CONDUCT A SEARCH IN THE SEDAR DATABASE. IF YOU CANNOT FIND AN IDENTICAL COPY OF THE PROSPECTUS, WE ADVISE YOU TO BE VERY CAUTIOUS.

## 10

**WHY SHOULD YOU READ A PROSPECTUS?**

A prospectus gives you detailed information about the issuer and the securities being sold. You can find the answer to many questions before making an investment.

In reading a prospectus, you should find out the following information:

- Is the issuer well established or does it have little or no history?
- What business is it in? Who are its competitors?
- What are its strategic plans?
- In the case of a company, how does it plan to spend the proceeds from this offering?
- In the case of a mutual fund, what is its investment strategy?
- Has the issuer been profitable in the past? Has its financial performance been improving or declining in recent years?
- What assets does it hold?
- Does it have substantial debt?

- What other securities have already been issued?
- What are the major risk factors that could affect the issuer's performance in the future?
- Who are the directors and officers? Do they have successful track records? Do they have management qualifications? How will they be compensated? Have they had any regulatory problems in the past?
- Is there a market for the issuer's securities? Will the securities be listed on an exchange?

By examining the prospectus, you will be better able to determine whether the investment suits you and whether the levels of risk and potential return fit your particular investment needs and objectives.

Securities that are issued without a prospectus (under certain exemptions) generally cannot be sold to the public and, in most cases, they are subject to resale restrictions. For further details, please read our brochure entitled *Prospectus Exemptions*.

**TO CONTACT THE *AUTORITÉ  
DES MARCHÉS FINANCIERS***

**QUÉBEC CITY**

Place de la Cité, tour Cominar  
2640, boulevard Laurier, bureau 400  
Québec (Québec) G1V 5C1

(418) 525-0337

**MONTRÉAL**

800, square Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3

(514) 395-0337

**ELSEWHERE IN QUÉBEC**

Toll-free number: 1 877 525-0337

**INFORMATION CENTRE**

**FOR CONSUMERS**

(418) 525-0311

(514) 395-0311

Toll-free number: 1 866 526-0311

Fax: (418) 647-0376

[renseignements-consommateur@lautorite.qc.ca](mailto:renseignements-consommateur@lautorite.qc.ca)

**FOR FINANCIAL SECTOR PARTICIPANTS**

(418) 525-2263

(514) 395-2263

Toll-free number: 1 877 395-2263

[renseignements-industrie@lautorite.qc.ca](mailto:renseignements-industrie@lautorite.qc.ca)

You can also visit the website of the *Autorité  
des marchés financiers* at [www.lautorite.qc.ca](http://www.lautorite.qc.ca)

## Brochures to help you with your investments

Update your financial position

Choose the investments  
that suit you

Short investment glossary

Choosing a securities firm  
and representative

Mutual Funds

Watch out for securities fraud

Prospectuses made clear

Prospectus exemptions